

Minutes

Meeting of Special Commission to Investigate Other Post-Employment Benefits

Room 157, State House, Boston, MA

September 25, 2012

Attendees

Commission Members:

Henry Dormitzer, Co-Chair of the Special Commission

Anne Wass, Co-Chair of the Special Commission

Representative Frederick Barrows

Shawn Duhamel, Retired State, County, and Municipal Employees Association of Massachusetts

Al Gordon, Designee of Treasurer Steven Grossman

Senator Michael R. Knapik

Gregory Mennis, Assistant Secretary for Fiscal Policy, Designee of Secretary of Administration and Finance Jay Gonzalez

Dolores Mitchell, Executive Director of the Group Insurance Commission

Daniel Morgado, Shrewsbury Town Manager, Massachusetts Municipal Association

Andrew Powell, Massachusetts AFL-CIO

Other Participants:

Danielle Fox, Joint Committee on Public Service

Kathleen Riley, Segal Co.

Minutes:

Henry Dormitzer, Co-Chair of the Commission, called the meeting to order. He said that the meeting would serve two purposes: marching toward the Commission's report and reviewing the process for actuarial analysis. Minutes of the July 18, 2012 were approved.

Mr. Dormitzer began a discussion of a presentation he had given at the PERAC's Emerging Issues Forum on the OPEB Commission. Mr. Dormitzer reviewed GASB Statements 43 and 45 and said that these statements provide a great framing for the issue.

Mr. Dormitzer noted that the unfunded state liability has increased from \$9.8B in 2008 to \$16.2B in 2011 and that total health insurance expenditures by municipalities have increased from 12% to 19% of property tax revenue between 2001 and 2010. Mr. Dormitzer said the drivers of OPEB liabilities are the level of benefit, health care costs, and the eligible population and that the unfunded liability is a symptom of what is happening but not a driver.

Mr. Dormitzer presented a graph showing that Group Insurance Commission health expenditures grew 59% from 2007 to 2011. Shawn Duhamel asked whether this growth reflects an increase in the eligible population. Mr. Dormitzer said that he needed to know how much growth was due to healthcare costs and how much was due to population growth.

Mr. Dormitzer presented a graph showing the savings resulting from Municipal Health Care Reform. Mr. Mennis said that estimates suggest about a 10% savings.

Mr. Dormitzer presented a graph showing the growth in the eligible population from 2007 to 2011, including 35% growth in retired enrollees. He said that the retired enrollee population grew at a 7.8% compound annual growth rate, or three times annual population growth.

Mr. Dormitzer presented a graph showing Massachusetts' normal cost, or how much of employee's benefits is accrued every year, as a percentage of payroll, is among the highest. He said that among our peers, there have been cost control measures.

Mr. Dormitzer said that he had asked to move the report of the Commission's recommendations to December. He presented a slide of proposed principles and considerations. He said that he has a commitment to sustainable government, including the ability to pay for services and the ability to attract people to do that work. He said that he envisions starting the report with a statement of principles and considerations.

Mr. Duhamel said that he would like to see a reference made to fairness to retirees or an equitable approach to benefits and an acknowledgment that part of the Commission's goal is to do what is fair. He said that retirees are not entirely represented in the proposed principles and considerations. Mr. Mennis asked whether Mr. Duhamel was referring to people who are retired today, and Mr. Duhamel answered now and in the future. Mr. Mennis said this could go in the second box, "Competitive Compensation Packages to Maintain Quality of Services." Mr. Duhamel said it could go in either. Mr. Dormitzer said that he agreed that the reference should be more explicit and would be happy to work with Mr. Duhamel on the wording. Anne Wass suggested adding the statement "quality affordable healthcare for retirees."

Mr. Mennis said that he liked the way the principles and considerations had been laid out. He said that it seems the top boxes broadly get to the issue of values and being mindful of the people behind the numbers and that the lower left corner is how ANF thinks about the world: stretching dollars. He said let us stay committed to our values, but looking at the fiscal challenges in transportation and education, the size is substantial. He said that on the one hand we need to preserve benefits to support values, but on the other hand we need to do everything we can to stretch every taxpayer dollar.

Mr. Dormitzer said that as a matter of public policy we want the report to have agreement but also to say where there is disagreement about what the information means.

Representative Barrows asked what “commitment to intergenerational equity” means and whether this implies the same spending for a 25 year old as for a 65 year old. Mr. Dormitzer said that he was referring to the current cost of future benefits and that if we do not take these into account now, then we are shifting the burden onto our children. Mr. Dormitzer said that Representative Barrows’ comment was an interesting way of thinking about generational equity and that this would be fleshed out in the report.

Ms. Mitchell said that we should not back away from the fact that insurance, by its nature, requires cross-subsidization. She said that we do not want to say that everyone pays the same and gets the same because that is not true and that this is the nature of health insurance.

Mr. Dormitzer said that we should know whether what we have done is something that shifts costs to our children in a way that is unsustainable. Ms. Mitchell said that the issue is whether cross-subsidization becomes so lopsided that it is unfair and that generational equity means the distribution of cost in a way that serves the common good.

Senator Knapik asked how the Commission will know that we positioned ourselves in a good place by the time it comes out with a recommendation. Mr. Mennis said that there needs to be a roadmap or a way to keep tabs but that the Commission should feel that it is presenting a solution that is going to be sustainable. Mr. Duhamel said that he does not want to be sitting here in two years looking at another undersecretary.

Mr. Dormitzer said that the Commission does not control health care costs, and if they are an indicator, then the Commission wants to have some flags. Ms. Mitchell said that policies are moving forward, and Mr. Mennis asked whether she was speaking to state reform. Ms. Mitchell said both state and federal and that without cost containment, we are all hostages to healthcare costs. Mr. Mennis asked whether the overall impact of state efforts to contain costs could be an item for the October meeting and said that he feels everything the Commission has done is designed to take that into account.

Mr. Dormitzer presented a proposed calendar and noted that he hoped the deadline for reporting the Commission’s recommendations would be December and not November. He proposed amendments to the calendar: moving the November 2nd or 5th Commission meeting to November 14th, holding the late November meeting on November 27th, and moving the December 12th meeting to December 18th. He said that he would like a first draft of the report following the October 23rd meeting, to circulate a draft of the report before the November 27th meeting, and to vote on the final report at the December 18th meeting.

Ms. Mitchell asked to move the December 18th meeting to the 17th, and Mr. Dormitzer agreed. Mr. Gordon asked to hold the November 13th meeting in the afternoon, and Mr. Dormitzer suggested 2pm. The Commission agreed to hold the remaining meetings on October 23rd at 10am, November 13th at 2pm, November 27th at 10am, and December 17th at 1pm.

Mr. Duhamel asked whether there would be a meeting on December 20th, and Mr. Dormitzer said no. Mr. Dormitzer said they would vote on the substance of the final report and, if there are edits, have a few days to finalize it.

Mr. Powell and Mr. Morgado reported on the process of selecting an actuary to provide analysis for the Commission. Mr. Powell said that the procurement subcommittee developed a list of several areas of potential reform and were afforded \$150,000 to use in hiring a consultant. Mr. Morgado said that the subcommittee selected Aon Hewitt to handle the Commonwealth and Segal Co. to handle the municipal analysis. Mr. Powell said that they had struggled to wrap their heads around the municipal problem because of a lack of data and that the consultant planned to look at a sample of municipalities. Mr. Duhamel said that from his own involvement, he appreciated the work that went into the procurement and the give-and-take.

Representative Barrows asked whether the consultant would look at part-time policies, and Mr. Mennis responded that information on part-time policies was included in the supplemental information. Mr. Mennis said that in Phase Two of the consultant analysis, they would look at a combination of the possible changes from Phase One and different eligibility requirements.

Ms. Mitchell asked whether the consultants had considered using two sets of assumptions on health care costs. Mr. Mennis responded that most actuaries' projections already assume that we are going to be halfway successful in bringing health care cost growth down to the level of economic growth.

Ms. Riley said that the two actuaries would take a consistent approach to assumptions. She said that pension reform in and of itself would narrow eligibility for retirement benefits and therefore retiree health benefits and that instead of assuming the same eligibility as exists today, she would have to take into account changing eligibility rules. She said that the 13 scenarios the Commission asked for could really be looked at as 26 scenarios because they would be consider changes if applied to current employees and if applied only to future employees. She said that the actuaries had agreed on an assumption for changes in retirement rates, which would be to take the current rates and cut them in half.

Mr. Mennis pointed to the section on limiting cost growth, which he said some in commission have expressed concern about in the past. He said that the Commission should recommend the best changes now but might also want a mechanism to keep tabs on costs in the future. Mr. Dormitzer said that he was interested in inflation because it is exogenous to everything the Commission could do and that he worries about coming back to the table in an even worse situation if there is dramatic cost inflation.

Mr. Duhamel said that increased health care costs are driven by forces outside the control of retirees and that federal and state laws have tried to address costs by going after the healthcare industry, not by shifting the burden of cost. Mr. Duhamel said that this is a dangerous road and similar to what has come from Paul Ryan and the House Committee on Ways and Means. Ms. Mitchell said that for the Group Insurance Commission, the thrust of what they have done is to avoid shifting more costs and to require the provider and carrier community to pick up some responsibility for cost control.

Ms. Mitchell said that polling results are always expressed with a margin of error and asked whether the actuaries would present their results in this way. Ms. Riley said that the actuaries know their results will not be perfectly accurate but that the caveat they provide is more descriptive. Ms. Mitchell said that a 30-year timeline strikes her as difficult to predict, and Ms. Riley said that we would see mixed results over time. Ms. Mitchell said that she thinks the Commission should always have a modicum of humility about how sure we are.

Mr. Dormitzer asked how the Commission would help policy makers know when things are going the wrong way. He said that pressure for cost containment comes from outside and that he does not want employees or the budget to be the bearer of the burden. He said that he wants to know early if we cannot sustain what we are offering. Mr. Duhamel asked whether Mr. Dormitzer was interested in some kind of follow-up and said that if costs go up, people cannot go after providers for their costs being too high while the state can. Representative Barrows said that if we keep feeding the beast, then prices will keep going up. He said that if we start limiting cost growth and shift costs to the private sector, then that is a problem. Senator Knapik said that that is not cost containment, it is revenue containment. Senator Knapik said that he is not sure if what the Commission determines between now and December is where the legislature will be in a year. He said that we need to evaluate the consequences of doing nothing. Mr. Dormitzer said that he does not think asking the question prejudices that the Commission will go in that direction.

Mr. Mennis took the Commission members through the supplemental information provided as an appendix to the presentation. He said that at a high level, Massachusetts is among the higher cost states and that it provides benefits after ten years with few restrictions, which is a big driver of cost.

Mr. Duhamel said that a lot of municipalities do not contribute to survivor benefits, as opposed to the state which provides a 90% contribution. He said that most of these individuals are low-income women who have just lost a spouse and that they should not lose their insurance coverage as well. Mr. Dormitzer asked whether the consultant analysis would include surviving spouse coverage, and Mr. Duhamel said that it would.

Mr. Dormitzer said that the October 23rd meeting would include preliminary actuarial findings for the state and the baseline analysis; a review of early indicators of the size of the impacts; additional information on part-time policies, EGWP, and VEBAs; and a more formulated report preamble.

The meeting was adjourned.